

**REPORT OF THE AUDIT OF THE
CLARK COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CLARK COUNTY SHERIFF

**For The Year Ended
December 31, 2005**

The Auditor of Public Accounts has completed the Clark County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$36,135 from the prior year, resulting in excess fees of \$32,941 as of December 31, 2005. Revenues increased by \$41,143 from the prior year and allowable expenditures increased by \$77,278.

Report Comments:

- The Sheriff Should Deposit All Funds Received On A Daily Basis
- The Sheriff Should Batch Receipt Forms With Daily Checkout Sheet And Deposit
- The Sheriff Should Deposit All Funds Received
- W-2s Should Include All Amounts
- Payroll Withholdings Were Not Properly Calculated And Withheld In The Proper Amounts
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Clark County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 11, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Deposit All Funds Received On A Daily Basis
- The Sheriff Should Batch Receipt Forms With Daily Checkout Sheet And Deposit
- The Sheriff Should Deposit All Funds Received
- W-2s Should Include All Amounts
- Payroll Withholdings Were Not Properly Calculated And Withheld In The Proper Amounts
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Clark County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 11, 2006

CLARK COUNTY
RAY E. CAUDILL, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	30,000
State Grants			21,154
State - Kentucky Law Enforcement Foundation Program Fund			37,876
State Fees For Services:			
Finance and Administration Cabinet	\$	77,825	
Cabinet For Human Resources		3,480	
House Bill 452 Payments		<u>46,453</u>	127,758
Circuit Court Clerk:			
Fines and Fees Collected		5,985	
Court Ordered Payments		<u>1,137</u>	7,122
Fiscal Court			82,900
County Clerk - Delinquent Taxes			2,465
Commission On Taxes Collected			452,365
Fees Collected For Services:			
Auto Inspections		11,555	
Accident and Police Reports		557	
Serving Papers		36,015	
Carrying Concealed Deadly Weapon Permits		<u>15,815</u>	63,942
Other:			
Insurance Proceeds		11,643	
Transporting Prisoners		8,358	
10% Add on Fees		59,155	
Sheriff's Fees		3,515	
Advertising Cost		1,793	
Miscellaneous		<u>9,119</u>	93,583
Interest Earned			14,551

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
 RAY E. CAUDILL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	151,000	
Bank Note	<u>75,650</u>	<u>226,650</u>

Total Revenues		<u>1,160,366</u>
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 494,372
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Employee Benefits-

Employer's Share Social Security	42,839
Employer's Share Retirement	9,495

Contracted Services-

Advertising	827
Vehicle Maintenance and Repairs	15,783

Materials and Supplies-

Office Materials and Supplies	14,013
Law Enforcement Supplies	9,965
Uniforms	300

Auto Expense-

Gasoline	43,696
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Other Charges-

Federal Grant - Mobile Technology	30,000
Conventions and Travel	763
Dues	1,376
Postage	7,837
Bond	406
Carrying Concealed Deadly Weapon Permits	12,120
Training	772
Transporting Prisoners	5,244
Fiscal Court Filing Fees	10,770
Miscellaneous	8,316

The accompanying notes are an integral part of this financial statement.

CLARK COUNTY
 RAY E. CAUDILL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-

Office Equipment	\$ 6,807
Vehicles	109,123

Debt Service:

State Advancement	151,000
Notes	75,650
Interest	<u>1,187</u>

Total Expenditures	\$ 1,052,661
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Less: Disallowed Expenditures	
Penalties and Interest	<u>1,888</u>

Total Allowable Expenditures	<u>1,050,773</u>
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Net Revenues	109,593
Less: Statutory Maximum	<u>74,257</u>

Excess Fees	35,336
Less: Training Incentive Benefit	<u>2,395</u>

Excess Fees Due County for 2005	32,941
Payments to Fiscal Court - March 3, 2006	<u>21,357</u>

Balance Due Fiscal Court at Completion of Audit	<u>\$ 11,584</u>
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CLARK COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

CLARK COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. Leases

A. Copier

The Clark County Sheriff's office was committed to a lease agreement with Kyocera Mita America, Inc. for a Km-3530 Digital copier. The agreement requires a monthly payment of \$218 for 48 months, which was completed in November 2005. In addition to the \$218 monthly payment, the agreement called for an additional \$15 payment for insurance on the copier. Once the agreement was paid out, the office maintained the copier without a lease agreement and pays \$218 on it month to month until a new copier is purchased.

B. Radar Units

The Clark County Sheriff's office is committed to a lease agreement with Applied Concepts, Incorporated, for four Stalker radar units and all necessary associated equipment. The agreement requires a monthly payment of \$278 for 36 months to be completed in June 2006. The total balance of the agreement was \$2,782 as of December 31, 2005.

C. Laptop Computer

The Clark County Sheriff's office is committed to a lease agreement with Fleet Capital Leasing, for a Gateway 400L laptop computer. The agreement requires a monthly payment of \$74 for 36 months to be completed in April 2006. The Sheriff made a total of twelve payments from the 2005 fee account. The total balance of the agreement was \$442 as of December 31, 2005.

COMMENTS AND RECOMMENDATIONS

CLARK COUNTY
RAY E. CAUDILL, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2005

STATE LAWS AND REGULATIONS:

05-1 The Sheriff Should Deposit All Funds Received On A Daily Basis

We noted that some daily deposits were delayed by as much as 6 - 17 days for some months reviewed. The records showed that deposits were not made on certain days and multiple deposits were made on others. Technical Audit Bulletin 93-002, Section 3 requires the Sheriff "to deposit all public funds received into an official bank account on a daily basis." By not properly depositing monies received by the office, this could result in loss of receipts or misplaced monies. We recommend the Sheriff adhere to the requirements of Technical Audit Bulletin 93-002 by depositing all public funds received into an official account on a daily basis.

Sheriff's Response: New program implementations to comply with Technical Audit Bulletin 93-002.

05-2 The Sheriff Should Batch Receipt Forms With Daily Checkout Sheet And Deposit

We noted that receipt forms were not being maintained with the daily bank deposit as required by KRS 64.840. Receipts were given to the customer and another copy maintained on the system for future referencing; however, there were no copies included with the daily deposit summary indicating that a reconciliation of receipts to deposit total had been performed. KRS 64.840 requires that receipt forms be placed with the deposit.

Sheriff's Response: Additional daily receipts to be printed to accompany daily check-out summary.

05-3 The Sheriff Should Deposit All Funds Received

During our audit we discovered receipts for January 21, 2005, in the amount of \$90 never cleared the bank. We could not determine if these receipts were deposited, therefore we recommend the Sheriff reimburse the 2005 Fee Account \$90, from personal funds. Also, we recommend the Sheriff investigate all deposits not clearing the bank within three business days, and the Sheriff should receive a receipt from the bank for all deposits made, to ensure all receipts are being deposited in a timely manner.

Sheriff's Response: Sheriff will deposit \$90.00 to fee account. New procedures implemented to correct.

05-4 W-2s Should Include All Amounts

During our test of payroll we discovered the 2005 W-2s for seven deputies did not include all amounts paid to them in 2005. These employees were paid for 2004 holiday pay in January 2005, however this amount was not included on their W-2s. We recommend the Sheriff make the necessary revisions to these W-2s to include all the amounts paid in 2005, including the 2004 holiday pay, paid in 2005, and re-issue the revised W-2s to the deputies. Also the Sheriff should implement necessary checks and balances to ensure correct W-2s are issued in the future.

Sheriff's Response: New software in place for payroll.

CLARK COUNTY
RAY E. CAUDILL, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

05-5 Payroll Withholdings Were Not Properly Calculated And Withheld In The Proper Amounts

During our test of payroll we discovered FICA taxes were not being calculated and withheld in the proper amounts. FICA taxes are calculated on Gross Pay less Retirement and Pretax Health Insurance. The Sheriff's payroll system was calculating the tax on Gross Pay less Pretax Health Insurance and Life Insurance. The Sheriff's calculation did not include the reduction for retirement and included a deduction for life insurance, which is not a pretax item, which results in a higher amount being withheld than required. We recommend the Sheriff implement procedures to insure FICA taxes are properly calculated and the proper amounts withheld. Also the Sheriff should contact the Social Security Office and follow their instructions on how to correct the improper withholdings.

During our test of payroll we discovered the local Occupational taxes were not being calculated and withheld in the proper amounts. The local occupational tax ordinance requires the tax be calculated on Gross Pay. The Sheriff is calculating the local occupational tax on Gross Pay less retirement, pre-tax health insurance, and life insurance, which results in a lower amount being withheld than required. We recommend the Sheriff implement procedures to insure the Local Occupational Taxes are properly calculated and the proper amounts are withheld. Also the Sheriff should contact the Local Tax Administrators and follow their instructions on how to correct the improper withholdings.

Sheriff's Response: New payroll program in place to correct. Set up errors on withholdings.

05-6 The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

During our audit of the Sheriff's fee account for calendar year 2005, we have identified a total of \$1,888 in expenditures that are not considered allowable. Technical Audit Bulletin 93-001, Section 3 enumerates thirteen categories of expenditures that are not allowable.

Our testing procedures indicate the Sheriff made expenditures specifically identified in Technical Audit Bulletin 93-001. The following schedule provides a breakdown of the calendar year 2005 expenditures that are not considered allowable:

Penalties and Interest	\$1,888
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These penalties and late fees were due to the Sheriff's failure to deposit federal tax deposits in a timely manner. We recommend the Sheriff deposit federal tax deposits in a timely manner in order to avoid future penalties and interest charges. Also, we recommend the Sheriff deposit personal funds in the amount of \$1,888 into the 2005 fee account in order to reimburse the calendar year 2005 fee account for these disallowed expenditures.

Sheriff's Response: Sheriff will deposit funds to 2005 fee account.

CLARK COUNTY
RAY E. CAUDILL, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2005
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

05-07 The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted a lack of an adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the Sheriff could implement some of the following procedures to establish some compensating controls to offset the lack of adequate segregation of duties.

These controls could include the performance of surprise cash counts by the Sheriff, reconciliation of monthly reports to source documents and the receipts and disbursements ledgers by the Sheriff, and examination of the monthly bank reconciliation by the Sheriff. If these compensating controls are put into place, the Sheriff should document the duties performed by initialing source documents.

Sheriff's Response: Due to size of office, lack of adequate segregation of duties is hard to overcome.

PRIOR YEAR:

The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

This condition was not corrected and is repeated in the current year audit.

The Sheriff's Quarterly Financial Reports Should Be Submitted In A Timely Manner And Contain All Required Information

This condition was corrected and is not repeated in the current year.

Lacks Adequate Segregation Of Duties

This condition was not corrected and is repeated in the current year audit.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John W. Myers, Clark County Judge/Executive
Honorable Ray E. Caudill, Clark County Sheriff
Members of the Clark County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Clark County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated May 11, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clark County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clark County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Deposit All Funds Received On A Daily Basis
- The Sheriff Should Batch Receipt Forms With Daily Checkout Sheet And Deposit
- The Sheriff Should Deposit All Funds Received
- W-2s Should Include All Amounts
- Payroll Withholdings Were Not Properly Calculated And Withheld In The Proper Amounts
- The Sheriff Should Expend Fee Account Monies For Allowable Purposes Only

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 11, 2006

